

TRS New Legislation Q & A

Rhonda Price: Hello, and welcome to this edition of TRS Today, a communications initiative of the Teacher Retirement System of Texas. I'm your host, Rhonda Price, and our guest today is Brian Guthrie, soon to be Executive Director of TRS, effective September 1st 2011. And, congratulations, Brian, on your new role.

Brian Guthrie: Thank you.

Rhonda Price: Our topic today is what's been happening over at the Capitol these last several months. Of course the budget has been a major issue, so can we start off by talking about TRS' budgets, specifically?

Brian Guthrie: Rhonda as you know the state was facing a significant budget shortfall this legislative session, and many difficult decisions had to be made about the statewide budget. I'm pleased to report that TRS was not reduced as dramatically as many other state agencies were, however our funding was still reduced from where it stands for the current biennium. If I could explain; the state contributes to both our pension trust fund and to our TRS-Care fund a percentage of statewide education payroll. That current percentage is set at 6.644 percent; however, with the upcoming biennium, it's going to go down for our pension trust fund to 6.0 percent the first year of the biennium and will then go back up to 6.4 percent in the second year of the biennium. So, that will represent a reduction in the amount the state is contributing towards the pension trust fund. For TRS-Care, there's a similar formula used where the state contributes a percentage of payroll to that program as well. It's set in statute at 1 percent; however, for this upcoming biennium the state will contribute 1 percent the first year and 0.5 or half a percent, the second year. That will also be a reduction, but again it's not necessarily as big of a reduction as many other state agencies have faced. In addition to the state contribution levels, I should also mention that there are a number of rider provisions included in our budget, and riders are a way for the legislature to provide additional guidance to agencies on how to spend the funding that they are provided. In our case, these rider provisions ask us to do an interim study of the TRS-Care program in particular because although the program is solvent for the next two years based upon the funding provided by the state and by other sources that we receive, the long term sustainability of that program is a question and is in question and as a result we have been asked to study long term solutions to that program and we will be doing so over the next year.

Rhonda Price: Brian, as you know, TRS relies very heavily on our investment returns. Were there any legislative changes regarding our investment authority?

Brian Guthrie: Yes Rhonda, actually there were two notable changes both of which impact our ability to maintain a diversified portfolio. And, long term diversification of our fund is extremely important so that we can maintain our goal of achieving an 8 percent return over time with our pension trust fund investments. The first change that was made legislatively was to extend our authority to use external managers. Back in 2007 the legislature gave TRS the authority to use

what we term external fund managers and these are large investment firms that we partner with to look at investment opportunities. We leverage their access to world markets to gain better understanding of opportunities around the world, and we take advantage of their resources. This was a very successful program for us; however when the authority was given in 2007, it came with an expiration date. Based upon that expiration date we went back to the legislature this session and asked for an extension of that date and it was granted, so our authority to use external managers will now continue through 2019 or for another seven years, eight years actually, and we're very pleased about that. And, we think it will give us an opportunity to continue to maintain very successful partnerships with these companies. The other change, again as a diversification tool, is the use of hedge funds. For the past several years, TRS has been limited in our ability to use hedge funds as a diversification tool. In fact, we were capped at a level of 5 percent of the total trust could only be allocated to hedge funds. Based upon the legislation that just recently passed, that cap has now been increased to 10 percent and that will give us an opportunity to utilize that investment tool to its maximum extent.

Rhonda Price: Let's turn now to standardizing the school year. Tell us why that was important to TRS and the change that came about.

Brian Guthrie: Certainly. First of all let me emphasize, Rhonda, that when we're talking about standardizing the school year we're not changing the time that school begins and ends for all of the school districts around the state. That was an unfortunate misunderstanding about this change when it was first proposed. What we're talking about for us is standardizing a period of time in which we define a school year begins and ends, and that's important because TRS awards service credit to our members on an annual basis, and we look at how many days a member works within a year of service, and once they reach a certain threshold, they're awarded a full year of service credit. They don't get 6 months of service credit, they don't get an increment less than a year, it's only on a year to year basis. And that was creating problems for us in the past because some members would start their contract year in June, some would start in September, others may start in January, and it was sort of all over the map. And, so when a member would actually come to us at the end of their career and it would be time for us to calculate how many years of service they would have, we'd have to do quite a bit of detective work to figure out each year that they served in a particular district, when they started, when they ended, if they had a break in service in between, what the impact would be, and so forth. And so, by standardizing it, we hope that this will be a simplification not only for our members but for us as well. What the legislation does, it says that a school year for our purposes, and only for our purposes in terms of calculating service credit, starts on September 1st and ends on August 31st. This will be done in conjunction with a rule change that has already been made by our board which defines a year of service as working ninety days within a school year. So therefore, now we know when it begins we can count ninety work days from the beginning of that point in time and we can calculate on a fairly effective and quick basis each member's service credit based upon that new standard.

Rhonda Price: That does sound much more clear. Another legislative change involved purchasing service credit. Can you tell us about that?

Brian Guthrie: Absolutely Rhonda. Currently, there are at least six different categories of service credit that members can purchase back. Once they become a member of TRS, perhaps they worked as a substitute teacher or they worked as a teacher in another state, or they went on developmental leave and then they came back into a teaching position, all of those types of service can be purchased towards a member's overall years of service when they are calculating their annuity. What we've found, however, is that the formula used to determine the cost of purchasing that service varied dramatically from one type of service to the other. In general, most pension plans strive to create a standard by which members can purchase service credit based on its actuarial value, which means that when a member is purchasing a year of service, they're going to buy it for an amount that is fair market value, if you will. What we've found however with the TRS formulas is that many of our service credit purchase standards were not up to that level and so members that were purchasing certain types of service were getting a very good bargain. Now we're all for people to get bargains; however, it was only benefitting a very small portion of our population and essentially those members were being subsidized by the rest of our membership. So to change that, we tried to standardize across the board the purchase of this service credit so that it's fairer, it's more equitable for all of our members, and we no longer have this situation where some types of service are cheaper to purchase than others. Now, we realize that the current rules have been in place for a long time and so this legislative change is delayed in its implementation. It's not going to go into effect immediately; there will be actually a two year window in which members can purchase service credit under the old rules. However, they have between now and September 1st of 2013 to do that and after September 1st of 2013, they will have to purchase any additional service under the new rules. We would encourage members to really take a look at the service credit that's reported on your annual statement and if you believe that there's any unreported service that's not being reflected, you should go ahead and try to identify it in the next two years. Give TRS a call, talk to a counselor and try to make an arrangement to pay for that service now, because if you wait to do so after September 1st of 2013, then it's going to be much more expensive.

Rhonda Price: That is good advice, Brian. Let's turn now to employment after retirement or EAR. That's actually a very important issue because fewer people are remaining retired these days. Tell us about that new legislation.

Brian Guthrie: Well, the new legislation is intended to make the rules related to returning to work after one retires simpler and easier to understand. Based upon a review that we did of EAR during the interim last year, we discovered that the rules associated with coming back to work after you've retired as a TRS retiree were, for lack of a better term, convoluted, complicated and not well understood by either our members or by our employers, our school districts. The legislation that passed this session should simplify matters. What the legislation says is this; if you have retired prior to January 1st of 2011, you can come back to work in any TRS-eligible position full-time without penalty. In the past you could only come back to work for a TRS-eligible position under very specific circumstances. You had to be working in a critical shortage area, you could only do it for certain periods of time, and there were just a number of different standards that made it very difficult to administer on our end, and very difficult for our members to keep track of and to understand. Now it's very simple. If you have retired before that January 1st of this year you can come back to work without penalty. If you have retired

since then, you must sit out twelve consecutive months and then after you have sat out for a year, you can come back and work in any eligible position without penalty. So, we believe that this new standard should make it clearer to communicate the rules by which a member can come back to work without losing their annuity.

Rhonda Price: Our next topic is legislation impacting TRS' administrative matters. What all was included in this area?

Brian Guthrie: Well, Rhonda, the legislation you're referring to is commonly referred to as an omnibus bill or "clean-up" legislation. It's basically a bill that we recommend to the legislature every couple of biennia to clean up the books if you will on outdated or un-needed statutes or things that no longer make any sense for us when we're administrating benefits. The graphic you see up on your screen now summarizes some of the most salient or substantive provisions in that legislation. Of the provisions that you see on the screen, the one that I really wanted to call your attention to is the third from the bottom, and that's the five year limit on correcting service credit. Currently, if a member finds a mistake on their annual benefits statement they can report it to us when they find it or they can report it to us twenty years later when they retire. What this provision says is that if you discover a mistake in a service credit that's been reported, it's your responsibility as a member to tell us about that problem within five years of discovering it. If you wait until after that five year period, we will no longer be required to correct it, and the reason for that, although it may sound a bit harsh, is that we would have situations where members would be questioning service credit that had been earned fifteen, twenty years in the past and we really had no way of verifying whether or not there was a mistake made because the records were no longer available, the district no longer existed, or any number of other situations that might come up. And, of course, because there are so many provisions included in this omnibus legislation if you ever have any questions please come visit our website or give us a call and we'll be happy to try to answer them for you.

Rhonda Price: Brian, now that we have this new legislation what are the next steps?

Brian Guthrie: Well, Rhonda, over the next couple of months and actually over the next several years we'll be implementing all the new provisions included in the legislation that passed. And so we would encourage our members to check-in regularly on our website to see what the latest is on the news associated with this legislation and how we're implementing it. Also, if you're a member of *MyTRS* you can check your e-mail as we'll be sending out e-mail updates on a regular basis as we move forward. And, of course, we'll have our regular methods of communicating with our members through our newsletters and through our benefits handbook and any other number of ways that we try to get the word out. Communicating these changes is going to be absolutely critical for us and it's something that we're committed to doing. We understand that there are going to be lots of questions from our members, from our employers, and from other interested parties about these changes and how it will impact them or people that care about. And, so, for that reason we're going to do everything that we can to get the information out and to update it in a real-time basis. So again, you may check the website today and you may not see information about a particular item. That shouldn't prevent you from

coming back in a week or two weeks from now to check again to see if something new has been posted because we will be adding things to our website on a regular basis.

Rhonda Price: Thank you, Brian and congratulations again on your new role. That's our time for now. We encourage you to check out our other videos on the TRS website in the TRS TV section, and we thank you for joining us for this edition of TRS Today.